

Message Text

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C O N F I D E N T I A L TOKYO 13793

PASS TREASURY FOR WIDMAN AND CROSS

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJ: OHIRA'S COMMENTS TO PRESS ON EXCHANGE RATE

REF: TOKYO 10626

1. SUMMARY: LEADING ECONOMIC JOURNAL (NIHON KEIZAI) GAVE TOP PLAY TO REMARKS BY FINANCE MINISTER OHIRA SUGGESTING THAT JAPAN WILL STABILIZE THE YEN IN ORDER TO COMBAT INFLATION. FINANCE MINISTRY OFFICIALS, MUCH EMBARRASSED BY NEWS STORY, SAY THAT OHIRA'S REMARKS WERE MISINTERPRETED AND DO NOT SIGNAL ANY POLICY CHANGE IN JAPAN'S APPROACH TO FLOATING EXCHANGE RATE. END SUMMARY.

2. IN SPEECH BEFORE JAPAN PRESS CLUB ON OCT 21, FINANCE MINISTER OHIRA WAS REPORTED BY NIHON KEIZAI AS SAYING QTE IN ORDER TO SECURE STABLE OPERATION OF THE NATIONAL ECONOMY, IT IS INDISPENSABLY NECESSARY TO STABILIZE THE EXCHANGE RATE UNQTE. ARTICLE CONTINUES BY REVIEWING EXCHANGE RATE DEVELOPMENTS SINCE JULY AND SAYS THAT IN VIEW OF NEAR TERM PROSPECT FOR BALANCED CURRENT ACCOUNT MOF IS PREPARING TO STABILIZE YEN AROUND 300 BY EXERCISING CONTROL OVER CAPITAL INFLOW AND OUTFLOW. ARTICLE LINKS DESIRE FOR STABLE RATE TO NEED TO COMBAT INFLATION
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BY KEEPING IMPORT PRICES DOWN.

3. ENGLISH PRESS TREATMENT (JAPAN TIMES) HAS QUITE DIFFERENT APPROACH WITH SPEECH DESCRIBED AS STRESSING THAT INFLATION WILL RECEIVE PRIORITY OVER BUSINESS REVIVAL. EXCHANGE RATE ISSUE MENTIONED IN CONTEXT OF NEED FOR RESPONSIBLE JAPANESE BEHAVIOR IN EXPORT MARKETS DURING TIME OF DIFFICULTY FOR OTHER INDUSTRIAL COUNTRIES AND DETERMINATION OF GOJ TO BORROW RATHER THAN LET YEN DECLINE TO BOOST EXPORTS.

4. ASKED ABOUT NIHON KEIZAI ARTICLE, ASSISTANT DIRGEN FUJIOKA STATED THAT MINISTER WAS SPEAKING WITHOUT PREPARED TEXT. FUJIOKA SAYS HE HAS ALSO SENT MEMO TO OHIRA POINTING OUT THAT THE MINISTER'S REMARKS COULD BE INTERPRETED IN THREE WAYS (1) IF THE REMARKS MEAN 300 YEN PER DOLLAR IS A TARGET, THAT WOULD BE AGAINST AGREED IMF GUIDELINES; (2) IF 300 YEN PER DOLLAR IS VIEWED AS QTE APPROPRIATE UNQTE FOR MEDIUM TERM, THAT COULD HAVE MARKET REPERCUSSIONS; (3) REMARKS MAY MEAN CURRENT RATE QTE NOT INAPPROPRIATE UNQTE BUT THERE IS NO COMMITMENT FOR FUTURE RATE. FUJIOKA MEMO TO OHIRA RESPECTFULLY SUGGESTS THAT MINISTER MUST HAVE MEANT THE THIRD POSSIBILITY.

5. EMBASSY VIEW IS THAT WHILE JAPAN WILL TAKE NO OVERT ACTION TO PEG RATE, AUTHORITIES PRESENTLY SEEM COMFORTABLE WITH A RATE AROUND 300 YEN PER DOLLAR (PARA 3, REFTEL). SIGNIFICANT RATE STABILITY OVER LAST SEVEN TRADING DAYS HAS OCCURRED WITH NO INTERVENTION BY GOJ EXCEPT FOR \$10 MIL SALE OCT 22. ON THE OTHER HAND, IT IS CLEAR THAT MOF HAS THE TOOLS (INFORM OF MOF DEPOSIT SYSTEM, CAPITAL CONTROLS, AND BORROWING ABILITY) TO REGULATE CAPITAL FLOWS, AND THUS FOREIGN EXCHANGE ACTIVITY, WITHOUT DIRECT INTERVENTION IN THE MARKET. THEREFORE, THERE IS CONSIDERABLE PROSPECT FOR THE RATE TO CONTINUE AT AROUND 300 AND OHIRA'S REMARKS ADD TO THE PSYCHOLOGICAL FORCES WHICH WOULD KEEP THE RATE AT THAT LEVEL.
HODGSON

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